

Top Producer

GRAIN MARKETING STRATEGIES



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Base Sales on Basis Signals

Know which marketing tool to pull from the toolbox

By Chip Flory

Without accurate basis analysis, you can't confidently select the right marketing strategy. When basis is stronger than normal, your cash-marketing strategy should be to lock in basis but not necessarily price. On the flip side, when basis is weaker than normal, your strategy should lock in price but not basis.

Over time, basis tends to move back to a normal level. By following this basic marketing strategy, you will improve your grain marketing by adding the change in basis to the final selling price.

Use basis analysis to determine if basis should be captured or left open. Then, use your price outlook to determine if price should be locked in or left open.

Scroll to see what to do when you have a weak basis as compared to a strong basis.



Composite image: iStock



Weak Basis:

Do Nothing

When to Use:

- ▶ Basis is weaker than normal, and you have a bullish price outlook.
- ▶ You have reasonably priced storage available.
- ▶ You expect basis to strengthen to at least normal levels to cover expected storage costs.

Hedge-to-Arrive Contract

When to Use:

- ▶ Basis is weaker than normal, and your price outlook is bearish.
- ▶ Hedgers: Basis is weaker than normal, and the price is excellent.
- ▶ Cash-only: Basis is weaker than normal, price is excellent or price is below excellent levels, but you have a negative price outlook.

Deferred-Price Contract

When to Use:

- ▶ Basis is weaker than normal, and you have a bullish price outlook.
- ▶ Storage is unavailable or too expensive relative to expected improvement in basis
- ▶ The elevator or co-op is bonded and rock solid. Using a deferred-price contract makes you an unsecured creditor to the grain buyer.

Purchase a Put Option

When to Use:

- ▶ Basis is weaker than normal, and you have an uncertain price outlook.
- ▶ The difference between the strike price and the premium paid results in an acceptable price.



Strong Basis:

Do Nothing

When to Use:

- ▶ Basis is stronger than normal.
- ▶ You see no immediate threat to basis strength, and your price outlook is bullish.
- ▶ You have reasonably priced storage available.
- ▶ You expect price strength alone to cover storage costs.
- ▶ This strategy is most common ahead of harvest.

Forward-Contract Cash Sale

When to Use:

- ▶ Basis is stronger than normal, and you have a bearish price outlook.



Spot Market Cash Sale

When to Use:

- ▶ Basis is stronger than normal, and you have a bearish price outlook.
- ▶ It works best when underlying futures are at an excellent level.

Basis-Contract Cash Sale

When to Use:

- ▶ Basis is stronger than normal, and you have a bullish price outlook.

Sell Cash and Buy Futures (Buyback)

When to Use:

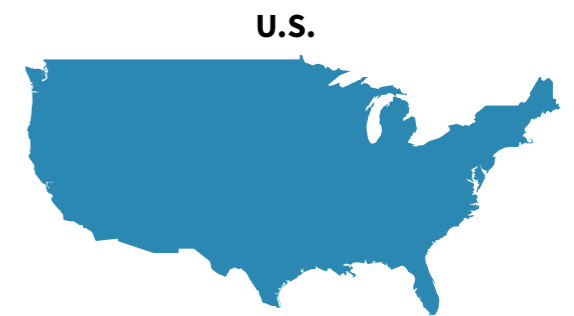
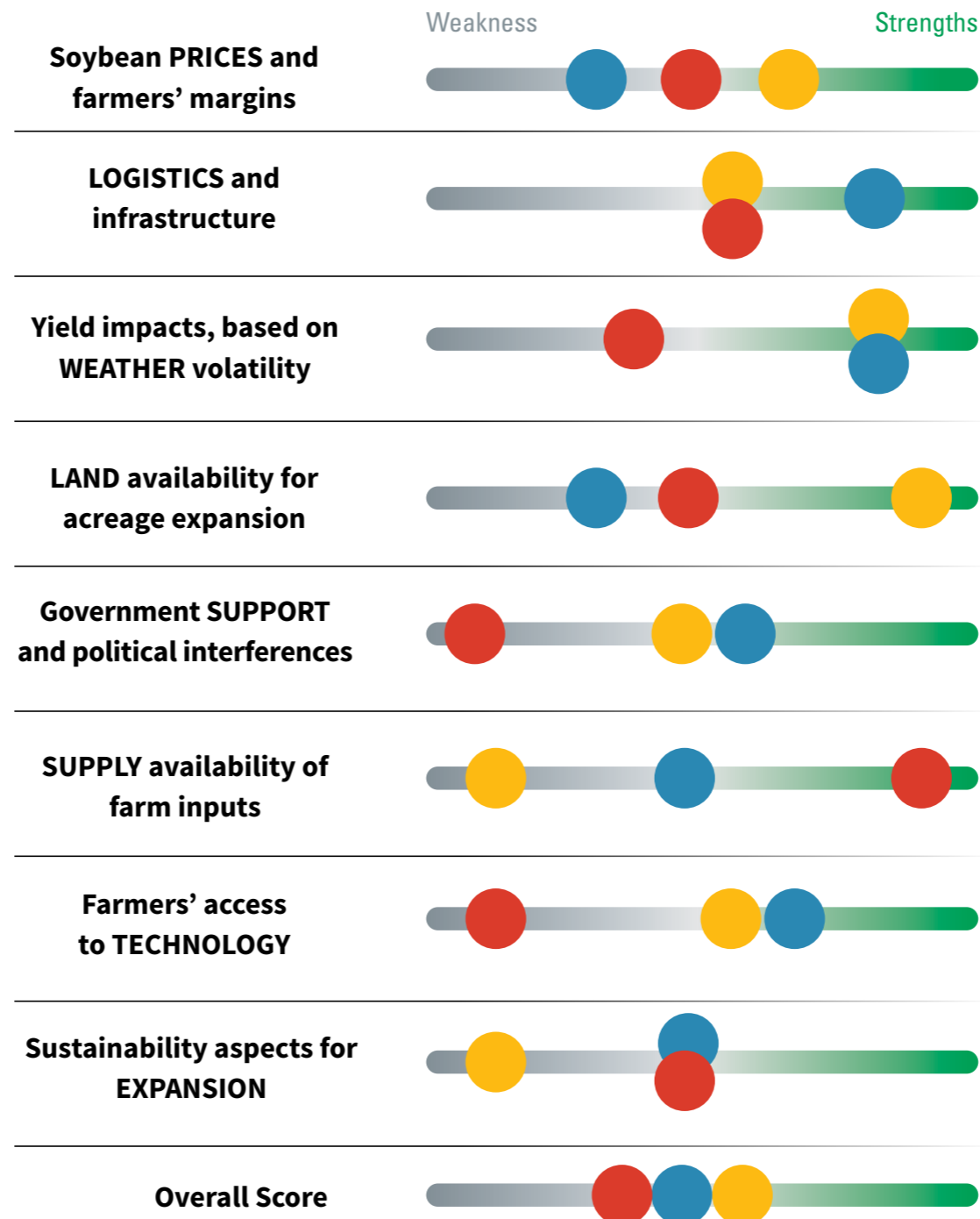
- ▶ Basis is stronger than normal, and you are convinced the price outlook for futures is bullish.

A Global Soybean Scorecard

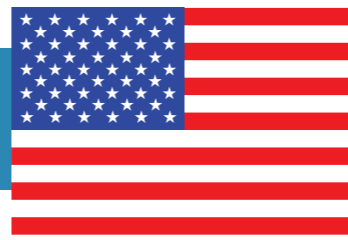
See how the top soybean exporters stack up in terms of competitiveness

By Sara Schafer

The global soybean market is a game of three. “Brazil has the most strength, followed by U.S., followed by Argentina,” says Erin FitzPatrick Nazetta, senior analyst for grains and oilseeds with Rabo AgriFinance. Will this ranking continue, or could one country’s competitive advantages edge out another? Nazetta and a multi-continent team of analysts evaluated the opportunities and threats to each exporter.

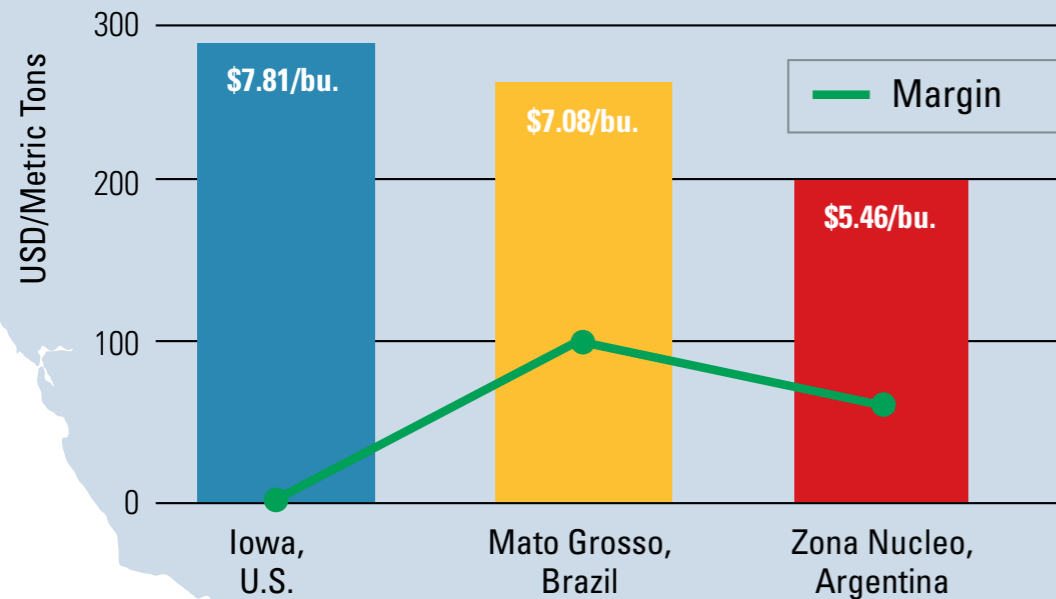


Source: Rabobank 2020



► Margin and Farmgate Price Outlook

Forecasts are based on the long-term outlook of \$9 farmgate soybean prices. Margins in the U.S. are low due to land costs of \$219 per acre (versus \$45 in Brazil and \$110 in Argentina).



(based on FOB prices at USD 330/metric ton or USD \$9 per bushel in the three regions)

U.S.

Strengths

Effective infrastructure of waterways and rail and large grain handling and storage systems.

Weaknesses

2020 is the eighth year of weak margins, and farmers have relied on government payments.

Opportunities

Access to technology, which will drive stronger yields gains (10%) in the next decade versus Brazil (9%) and Argentina (6%).

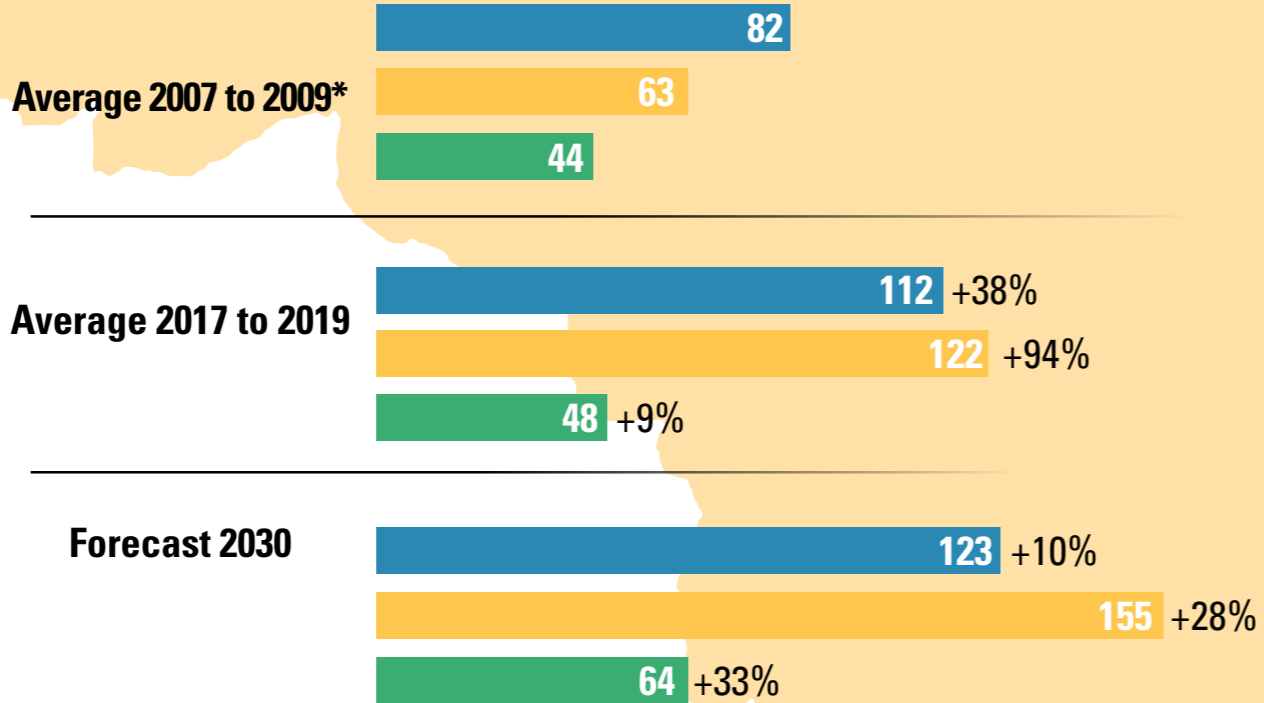
Threats

The trade war with China is expected to continue for years, which might restrict U.S. commodity prices.



► Soybean Production

Brazil's growth as a soybean powerhouse will continue. Argentina and the U.S. will also see increases.



*Million Metric Tons

BRAZIL

Strengths

High margins, weak currency, low land costs, double cropping and improving infrastructure.

Weaknesses

Soybean production is heavily dependent on imported fertilizers and chemicals.

Opportunities

New export terminals, higher use of rail transport to Santos and to São Luís-Itaqui and improving inland logistics.

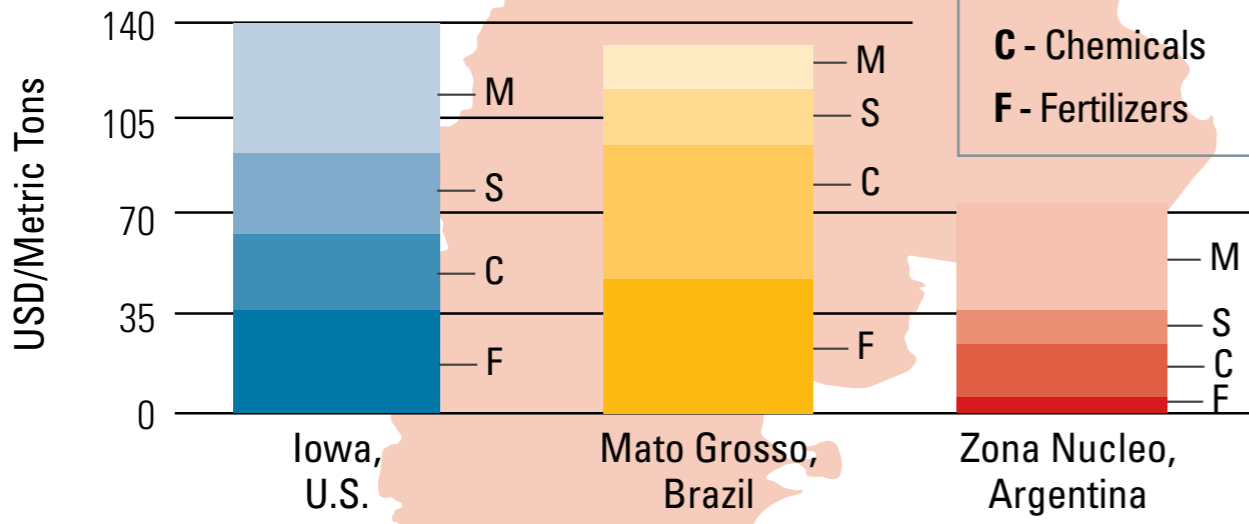
Threats

Expansion is expected to occur on underused pasturelands, but deforestation could lead to regulations.



► Soybean Operating Costs

In Argentina, soybean operating costs are 43% below Mato Grosso and 46% below Iowa.



(based on 2020/21 estimates)

ARGENTINA

<p style="text-align: center; font-weight: bold;">Strengths</p> <p>Low operational and input costs, high soil fertility, as well as low pest and disease pressures.</p>	<p style="text-align: center; font-weight: bold;">Weaknesses</p> <p>Lack of government support and high export taxes create constant uncertainty.</p>
<p style="text-align: center; font-weight: bold;">Opportunities</p> <p>Less dependency on farm inputs, which removes risk around chemical or other technology bans.</p>	<p style="text-align: center; font-weight: bold;">Threats</p> <p>Weather exposure to its concentrated production area and Paraná River logistic issues.</p>

Focus on Discipline Over Greed

Make smarter grain marketing decisions with these simple steps

By Sara Schafer

Should I sell grain today? It's a simple question with a complex answer. Even if you knew prices historically peak in a certain time frame eight out of 10 years, you might still not pull the trigger.

"We feel like if we can lay out the odds of a decision paying off, we'd make good decisions," says Mark Welch, ag economist at Texas A&M University. "But we're not rational decision makers. We let biases and emotions cloud our thinking."



While you can't completely remove your emotional connection to the grain markets, you can reduce the noise and stay focused on your plan. Take these steps.

► **Refine your grain marketing process.**

"We can talk ourselves into doing about anything," says Brent Gloy, economist at Agricultural Economic Insights. To avoid that, use this simple process:

1. Assess the situation.
2. Take in data.
3. Make a decision.
4. Review.

"One of the most important parts, which we don't often do, is to take a step back and review a decision," Gloy says. "Was that the best decision I could make? It's OK to make a wrong decision, as long as you used the right process."

► **Strengthen your relationship with your grain buyer.**

A big hurdle in marketing is forward contracting grain. What if your crop comes up short? "Before you write off certain marketing tools due to production uncertainty, understand how the option works with your buyer," Welch says.

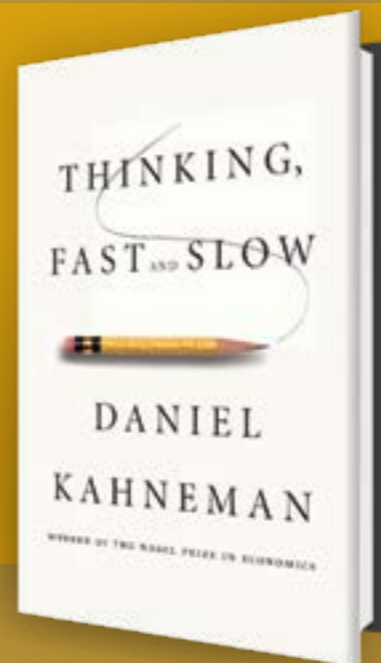
► **Involve your team in marketing decisions.**

"You don't want to make these decisions in a silo," Welch says. "Bring in your management team, lender, grain buyer or crop insurance agent and have conversations about price outlook. You can't see all the influences on prices, so expand the people at the table."

► **Revisit and refine your plan.**

Put dates on your calendar to review your plan, Welch suggests. How much have I sold? What market trends have changed? "Slow down, break it down and put it down on paper," he says. "Then have the discipline to execute plan."

Scan the QR code
to see this book on
Amazon.com



Reading Recommendation

Want to improve your decision-making process? Check out "*Thinking Fast and Slow*" by Daniel Kahneman. This best-selling book delves into how the two systems in your brain are constantly fighting. The default setting is System 1, which is fast, instinctive and emotional. System 2 is slower and more deliberative. Kahneman explains when to use each system and how to make fewer irrational decisions.

Top Producer Tips Online



Click the link to see the [Grain Marketing Roadmap](#) (including the videos below) online or scan this QR code.



To learn more from the [Top Producer Summit 2021](#) click the link or scan the QR code.

